NEW WAVE INC.

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Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington D.C. 20554

February 5, 1998

Re: Notice of Ex Parte Communications;
Broadband PCS C and F Block Installment
Payment Restructuring; WT-Docket 97-82

Dear Secretary Salas

Earlier this week, I met with Peter Tenhula, Paul Misener, Erik Jensen and Karen Gulick of the Commission to discuss issues in the above-referenced proceeding. I represent New Wave Inc., a wireless reseller based in New York. The views expressed reflect the positions and ideas previously presented to the Commission by New Waves' written filings.

Moreover, I am attaching two articles, "Without viable C-Block, PCS resellers' future bleak" and "AT&T looks to high-end wireless customer for growth," which shed light on concerns that I have raised. I would like to call your attention to the last paragraph of the AT&T article, which quotes Lehman Brothers analyst John Bensche saying, " It is a great sign to see the two biggest wireless companies [AT&T and Sprint] in terms of 'pops,' in effect, raising their prices. The much feared wireless price war seems to have abated, at least for now."

As stated in our filings in this record, the major winners of the restructuring proceeding were incumbent telephone companies, and the losers were consumers, who will be denied the benefits of lower prices and new services that competition promises.

An original and two copies of this filing are being submitted to you. Please direct any questions on this matter to me at 888-224-5012.

Sincerely,

Monui Bose
CEO

cc: The Honorable William Kennard
cc: The Honorable Susan Ness
cc: The Honorable Harold Furchtgott-Roth
cc: The Honorable Michael Powell
cc: The Honorable Gloria Tristani
cc: Mr. Peter Tenhula
cc: Mr. Paul Misener
cc: Mr. Erik Jensen
cc: Ms. Karen Gulick

Fourth-quarter earnings stronger than expected

AT&T looks to high-end wireless customer for growth

BY ELIZABETH V. MOONEY

NEW YORK—AT&T Corp.'s fourth-quarter earnings announcement last week was notable both for what the company said about its recent past and about its plans for the near future.

The country's largest telecommunications carrier, working to streamline operations in the highly competitive marketplace, reported surprisingly strong fourth-quarter profits on flat earnings, and also announced plans to cut 15,000 to 18,000 jobs by the end of 1999.

In a Jan. 26 meeting with security analysts at AT&T's New York headquarters, Michael C. Armstrong, who became chairman in late October, said most employee reductions will come through early retirement and attrition. Attrition accounts for about 10,000 AT&T jobs in any given year, according to security analysts' estimates. Ken Woo, external communications manager for AT&T Wireless Services Inc., Kirkland, Wash., said the staff cuts won't affect the wireless division significantly.

A greater proportion of executive and board-member compensation will be linked to the performance of the company and its stock going forward, Armstrong said. AT&T reported fourth-quarter earnings from continuing operations rose to $1.32 billion, or 81

cents per diluted share, up from $1.25 billion, or 77 cents per share, a year earlier. The result beat the average forecast of 71 cents per share, according to security analysts polled by First Call.

Investments in local service, new wireless markets, AT&T WorldNet and international markets diluted earnings by about 24 cents in the latest complete quarter. Increases in revenues from wireless, business long-distance, local and other services were partly offset by a decrease in revenues from consumer long-distance telephony.

Overall revenue was "essentially flat" at $12.83 billion, compared with $12.87 billion during the last quarter of 1996, the company said. However, revenue from wireless services increased to $1.13 billion, up 4.2 percent from the fourth quarter of 1996, even though net additions totaled about 234,000, a decline of 44.3 percent from the year-ago quarter. AT&T added 525,000 subscribers in fourth-quarter 1996.

AT&T attributed the wireless revenue increase, in part, to a 15.7 percent cellular subscriber growth for the year, bringing its total to 6.02 million customers by year-end. If cellular subscribers from AT&T's minority-owned partnership markets are included in the tally, the carrier closed out 1997 with 8.19 million subscribers.

AT&T closed the fourth quarter with about 1.7 million digital wireless subscribers in its wholly owned operations. Of these, about 100,000 are personal communications services customers. The carrier closed 1997 with about 1.3 million messaging customers, an increase of about 13 percent from 1996 figures.

"Higher retention and acquisition costs in wireless markets, due partly to the migration of customers to digital service, were a driver of additional cost throughout 1997," the company said.

"However, the cost per gross add in wireless markets was down 5.4 percent in the fourth quarter and 6.1 percent for the year."

Armstrong told security analysts that AT&T would streamline the marketing of its diverse mix of products and services as a means to further reduce overhead.

"We expect AT&T account executives will no longer market specific products but will market a bundle of services suitable to specific market segments," said Stephanie Comfort, a telecommunications analyst for Morgan Stanley Dean Witter, Denver.

"We already have seen evidence of this trend at AT&T Wireless. In our conversation with [its] chief, Dan Hesse, we discussed the unit's marketing changes. The wireless marketing divisions are being consolidated into the consumer and business markets division where the company can market a long-distance/wireless bundle."

John Bensche said AT&T's decision to go after high-use wireless customers bodes well for PCS carriers, whose customer base is at the lower end. Bensche is a telecommunications analyst for Lehman Brothers Inc., New York, which helped manage the initial public offering of Omnipoint Communications Services Inc.

"Sprint (Spectrum L.P.) recently has indicated it is, in effect, raising prices or changing the terms of its offers [so] that its service isn't such a dramatic discount to others," he said.

"It is a great sign to see the two biggest wireless companies in terms of 'pops,' in effect, raising their prices. The much-feared wireless price war seems to have abated, at least for now."

Entrenched entities not interested in increasing customer choice

Without viable C-block, PCS resellers' future bleak

BY DEBRA WAYNE

WASHINGTON—To say there is rancor in the ranks of C-block personal communications services licensees regarding the structure and timing of possible financial restructuring plans is akin to saying Maine residents are upset at several weeks with no power following a devastating ice storm. All both factions can do at this moment is sit back and wait for help to come.

Nearly six weeks remain before the Federal Communications Commission must finish mulling the many petitions for reconsideration that address its four-pronged C-block financial-restructuring plan released in September and accept the decisions of licensees that must choose between keeping the status quo or divesting themselves of one or more precious—though probably overpriced—properties. Only one thing is sure right now—the date for the reauction of any returned licenses.

While the views of the top beneficiaries of any FCC largess are well-known, those of a group dependent on existing carriers for their livelihood—the resellers—are just as adamant in their pleas for a commission rule change because without the C block, they say they cannot exist.

There is a competitive wireless marketplace out there, with most well-populated areas served by two cellular carriers, at least one PCS carrier, one enhanced specialized mobile radio operator and numerous traditional SMR and messaging companies.

Most resellers commenting on the commission's financial plan were quick to point out that those entrenched entities are not their friends and certainly are not in favor of increasing customer choice. So far, few of them have been able to strike reseller deals with incumbent A- and B-block PCS players nor have there been many C-block players from which to choose, despite what other commenters have mentioned about "multiple carrier choices, even without the C block."

Countering the "multiple choices" statement was United Calling Network Inc., a Laguna Hills, Calif.-based, minority-owned switched reseller that has signed with NextWave Telecom Inc. to offer PCS service in the future. "Competition is mainly between the A-block and B-block licensees in each marketplace. Although there are areas in which C-block licensees have begun to provide service, backed by incumbent capital, none of these C-block winners are in any of the major cities or trading areas of the United States ... How can the C block be healthy when the second and third top license winners—General Wireless and Pocket Communications—have filed for bankruptcy protection," it wrote.

In addition, UCNI pointed out there has been no rush to market by D-, E- and F-block licensees, which have been experiencing many of the same financial difficulties as their C-block brethren even though they paid less for their markets overall. "We are acutely aware that without C-block licensees, there are no resale opportunities in PCS, despite what others ... would like the FCC to believe," it said. "UCNI has expended a great deal of money in anticipation of reselling PCS service in the near future. If licenses are forfeited, placed into bankruptcy or otherwise tied up in litigation, UCNI and many other resellers of C-block licensees will face the prospect of equipment and infrastructure with no PCS provider."

If the commission does not grant the full measure of financial relief to C-block players, it would be shirking its responsibility to foment a competitive atmosphere. However, if relief is granted and C-blockers still can't get up and running, "there is nothing more they can complain about," UCNI wrote.

"Our company is in the marketplace and we don't see where wireless resellers can deal with healthy C-block carriers today," commented OneStop Wireless of America Inc., located in Irvine, Calif. "The only C-block carriers we see in operation are either tied to rural telephone companies (i.e., Horizon or Meretel) or are backed by the incumbent [regional holding companies] such as Aerial being backed by BellSouth. None of these players are offering service in any of the major metropolitan cities in the United States."

OneStop's efforts to forge reseller agreements with A- and B-block players has not been successful; in one instance, the carrier offered a new customer 1,200 minutes per month at five cents a minute, a plan no reseller could match and one that would cost a OneStop customer 18 cents per minute, at best. In other cases, the incumbent PCS licensee has asked resellers to sign exclusive contracts, only to find that the carrier soon began marketing a look-alike product for less money and better connectivity through its own in-house marketers.

OneStop also decried the practice of these companies of requiring copies of reseller business plans, marketing strategies and price structures, which only allows them to quash their partner/competitors later on. The only way a reseller can compete with an entrenched operator is on price, OneStop said, and A-and B-block carriers are maintaining prices at artificially high rates.

One consultant hired by OneStop had personal knowledge of being told, while employed by an incumbent A- or B-block PCS operator, to "lose reseller requests and applications in a maze of bureaucracy."

"So is a healthy C block important to the delivery of fairly priced wireless services to consumers? We believe the answer is yes," OneStop wrote. "We believe that effective competition by non-carrier resellers can only serve to lower wireless prices to consumers and dramatically increase the base of wireless subscribers." The C block will survive to help resellers if the commission will "allow for short-term deferral in the submission of installment payments in combination with an extension of the five-year construction deadline or a

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long-term deferral with no change in the construction deadline," it recommended. "One way or another, the government will be repaid on debt granted to the C block."

New Wave Inc., a Northeastern reseller, agrees with OneStop about the lack of A- and B-block acceptance of reselling, and it is concerned that "no PCS carrier in the New York metro market is offering reseller agreements, and their networks have been in service for over a year." It is depending on financially strapped NextWave to get more resellers into the wireless marketplace at wholesale prices they want to pay.

"This is critical because once the license issue is resolved, NextWave will use its capital for deployment of network buildout and will not have to spend millions on advertising, sales, marketing, etc.," wrote New Wave. "The savings are passed on to resellers such as [New Wave] and allow us to offer competitive service."

Many resellers have reminded the FCC about a recently released National Wireless Resellers Association survey that found only three out of 46 resellers had signed agreements with PCS carriers other than NextWave. More than 60 percent of those resellers polled said they were denied access to a PCS resale agreement. According to CellNet of Ohio Inc., "The survey went on to say that more than 70 percent of inquiries of wireless resellers attempting to secure agreements were rebuffed by the carriers."

Like other commenting resellers, CellNet disagreed with claims made by F-block winner AirGate Wireless L.L.C. that plenty of competition exists in the PCS arena, adding, "AirGate fails to put its money where its mouth is and state for the record that it intends to offer resale programs such as those to which it refers in its comments. The fact is, the only PCS carrier who has guaranteed favorable resale arrangements is NextWave. In fact, NextWave has gone a step further and offered fully interconnected facilities-based access to its networks to resellers who request it. No other PCS or cellular carrier has made such an offer."

What resellers want the FCC to realize is that their businesses are just as tied to whatever changes the commission chooses to make to its original restructuring program, following its final evaluation of petitions for reconsideration, as are the C-block licensees that have requested help to avert disaster. "There is a great deal of 'stranded debt' involved with C-block licensees," reseller UCNI concluded. "If relief is not granted to the C-block licensees, the FCC will be abandoning and financially destroying innocent companies (i.e., vendors, resellers, etc.), such as UCNI, who relied on the integrity of the FCC auction and licensing process."